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Horizons, 60 Queen's Road, Reading, RG1 4BS
ube.ac.uk | +44(0)118 921 4696 | enquiries@ube.ac.uk

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Author(s)	David Hourihan, David Hourihan, David Hourihan and David Hourihan
ORCID	https://orcid.org/0000-0003-1405-3130; https://orcid.org/0000-0003-1405-3130; https://orcid.org/0000-0003-1405-3130; https://orcid.org/0000-0003-1405-3130
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PROPERTY VALUATION

(BG3 ALT S6)

Section 13 –

Methods of Valuation – Comparisons Method Pt 1

Real Estate Business Management Program

Year 3 – Work study program

Présenter: David Hourihan MSc Prop Inv FRICS

8 November 2023

Property Valuation (BG3 ALT S6)

Agenda

1. Recap: the purposes of valuations, factors affecting property value, the property market.
2. Factors affecting property values.
3. The Property Market.
4. Property Valuation: an art or science?
5. The comparison method of valuation.
6. Factors affecting the reliability of the comparison method.

Property Valuation (BG3 ALT S6)

1. Recap: The purpose of valuation

So, what is property valuation all about? In a nutshell…

Valuation is to do with estimating what someone will pay for a legal interest in a property:

Buying or Renting.

We are trying to determine the ‘Market Value’ or ‘Market Rental Value’ of a property.

Simply put, this is the price/rent likely to be obtained at this current time if the property was put on the market and advertised properly (i.e. no irregularities).

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2. Factors affecting property values

- Availability of finance.
- Fashion / local demand.
- Location and amenity.
- Development potential.
- Sustainability accreditations.
- Design features.
- International economic situation.
- Age and condition.
- Local economy.
- Government policy.
- National economy.
- etc….

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3. The Property Market

To understand the nature of the property market we need to consider what characteristics define any market?

Consider the following questions about your own local market:

- The Property Market: Residential and Commercial are two main sectors. What are the sub-sectors in your local market?
- Who are the buyers and sellers?
- Property is a commodity to buy and sell, what are the challenges to trading in property?
- A means to facilitate the buying and selling (i.e. a marketplace). How is property traded in your local. market? Are there any unique or unusual features of your local market?
- How transparent is your local market? Is market data available?

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4. Property valuation: A science or an art? Or both?

Valuation is generally regarded as a hybrid discipline sitting somewhere between science and art.

Valuation is ultimately a matter of opinion.

Despite internet accessible databases containing comparable market information and spreadsheets and software packages which make valuation calculations easier, valuation still requires a subjective assessment of the relevant factors.

Valuation is a prediction of human behaviour in the marketplace.

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5. The comparison method of valuation

Also called ‘comparative’ method of valuation or ‘comparable’ method of valuation.

Wyatt (2013) states Valuation is the prediction of human behaviour in the marketplace.

A prediction of human behaviour is commonly done by looking at recent behaviour in similar situations and assuming this will be repeated. In a marketplace it is assumed that humans adopt a rational economic approach. So, we analyse prices/rents that buyers/tenants have paid recently and assume that they would do the same in the future.

The Valuation paradox:

The built environment is not a laboratory and valuations will vary but the calculations performed in valuations assume *ceteris paribus*. No two properties are the same (heterogeneous) yet valuation relies on the comparison of properties to give an indication of value.

Solution: The valuer must identify and quantify differences in type, location, legal interest, quality and the state of the market.

Wyatt P (2013) Property Valuation (2nd edn) Chapter 5

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5. The comparison method of valuation

The principle of comparison lies at the heart of property valuation. Comparison is both a method and a principle.

The comparative method is used as a basis in all methods of valuation and compares like with like. It works on the basic assumption that the price paid for a property at a given point in time is evidence of the market value for that property, and (all other factors being equal) is a good indicator of the market value of a similar property.

It involves carrying out a valuation by directly comparing the subject property with similar properties which have been sold/leased in the past – and uses the evidence of those transactions to assess the value.

Comparison method:

- Collect and check evidence.
- Select and adjust value factors.
- Reconcile comparables and value subject property.

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5. The comparison method of valuation

Information is key for the comparison method.

- Information holds the key to better decision-making via more reliable analysis.
- Reliable information is the foundation for good decision-making, but does not come easily.
- Information is based on an assimilation of data - things known or granted as a basis for inference.
- Accurate data provide both the foundations and the building blocks for good property advice.

It is an excellent, reliable method when the market is stable and active.

A lack of suitable comparable data is an issue for valuation and valuers.

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6. Factors affecting the reliability of the comparison method

Prices are affected by supply and demand. These are seldom constant.

Supply can be irregular:

For example, as residential property only comes onto the market as people wish to move – the supply is seldom constant.

New properties also come onto the market as they are completed. This is affected by planning consents, the economy and many other factors.

Demand can vary enormously.

Demand fluctuates with:

- Population movement.
- New household formation.
- Wages.
- The availability of loans.
- Interest rates.

Demand is seldom constant.

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6. Factors affecting the reliability of the comparison method

Although two properties may be very, very similar, they are never quite identical:

Every property is unique.

There can be differences in size, shape, layout, condition and there can be advantages of one property over another even in the same street or floor level.

This is an important principle for the valuer!

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6. Factors affecting the reliability of the comparison method

Although superficially similar, properties are never truly identical:

- They can differ in architectural style.
- They can be of different ages.
- The condition can vary.

The position of each property may also be subtly different:

- One house can be on a corner site and other can be in the middle of a row.
- One may have a bus stop outside, another may be next to the entrance to a primary school.
- One may have an outstanding view of a park, and another with no view whatsoever.

Other considerations may differ:

- The internal room layout can be quite different (for example, additional bedrooms may have been added).
- A property may have undergone extensive modernisation.
- Garden size may be quite different although the houses are a very similar.

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6. Factors affecting the reliability of the comparison method

Prices are also influenced by personal consideration.

It could be that the price of a house is affected by the fact that a purchaser is particularly interested in only that property, and to buy it decides to pay ‘over the odds’. In such cases, the buyer is referred to as a special purchaser.

Other factors to consider…

The catchment area for a good school can have a significant impact on property prices.

The provision of car parking

etc, etc….

Next Lecture

Section 14 – Methods of Valuation – Comparison Method Pt2